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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 000111

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TAGS: [ENRG](#) [TU](#)
SUBJECT: TURKEY: NUCLEAR TENDER FATE STILL UNCERTAIN

REF: A. 08 ANKARA 2137
[1](#)B. ANKARA 0004

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary. On January 19, the Turkish Electricity Trading and Contracting Company (TETAS) announced the results of the final step in the bid to build Turkey's first nuclear power plant. The Russian consortium of AtomStroyExport, InterRAO UES and the Turkish firm Park Teknik submitted a bid of USD 21.16 cents per kilowatt hour (kWh). The high price was denounced by the Director of the Turkish Atomic Energy Council (TAEK) as "ridiculous" and several academics likewise publicly decried the price. Ultimately, the decision whether to accept the bid will be left to the Council of Ministers (COM). The Russian-led consortium has already submitted a new bid envelope to TETAS which reportedly contains a substantially lower price. A lower price, combined with heavy Russian lobbying and the GOT's desire for a political win before the March local elections may mean the bid is ultimately accepted. End summary.

Further price negotiation or bid cancellation?

[1](#)2. (C) September 2008 was the TETAS deadline for private companies to submit bids to build Turkey's first nuclear power plant. At that time, only one consortium (Russian AtomStroyExport, InterRAO UES and Turkish firm Park Teknik) submitted a bid. In December, TAEK pronounced the bid technically acceptable. The last remaining hurdle for the bid is the price the consortium offers for electricity, i.e. price per kilowatt hour. The final decision whether the bidder's price rests with the COM. There are two ways the decision could go. First, they could reject the bid outright. This would invalidate the tender and send the process back to square one. Such an action would trigger a whole new tender process and require the passage of new tender legislation. Alternatively, the COM could open the second price envelope recently submitted by the consortium and/or instruct TETAS to continue negotiations with the Russians in hopes of securing a lower price.

Why was the Russian price so high?

[1](#)3. (C) There were many risks and unknowns in the tender structure. These risks led Western firms like GE or Hitachi to withhold bids. In contrast, the Russians priced in the risk. For instance, since the power won't come online until

8-10 years from today and the tender formula did not allow for any material cost escalation, they estimated the project cost (including inflation, etc) in future prices. Also, since the power-purchase guarantee is for 15 years only, the Russian plan to recoup all of their investment during that term -- meaning, this project will become quite profitable during the 45 years the plant is supposed to operate after the power purchase guarantee expires.

Why can the Russians now offer a lower price?

¶4. (C) Muzzafer Ozdemir, Director for ERG Insaat, a construction subcontractor for Atomstroyexport in the bid, told us that the Russians, as part of the second envelope yet to be opened, will be offering low-cost, sovereign-backed financing that will allow them to lower their price to an "acceptable" level (which he declined to state, but indicated it had already been discussed and agreed between the GOT and the AtomStroyExport). As reported ref A, market expectations were Euro 9-11 cents. Originally, the GOT had demanded fully private financing for the nuclear plant, an estimated USD 10 billion.

Russians offer some sweeteners

¶5. (C) The Russians are aware of the perception that winning the nuclear tender increases Turkey's energy dependence on Russia. Accordingly, the Russians have invited a U.S. firm into the consortium as a partner to assist in design. Ozdemir only hinted at the firm's name, but we believe it is Parsons, which is also part of the Russian consortium

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building a nuclear power plant in Bulgaria. There were rumors in the press that that Turks were seeking nuclear enrichment capability in order to lessen fuel dependence on Russia. Ozdemir said as part of the bid, Russia agreed to sponsor an institute to study how to use Turkey's own natural thorium deposits for fuel. Additionally, TAEK Director Okay Cakiroglu told us the Russians are offering to build a fuel fabrication plant in Turkey. Such a plant would take enriched uranium and package it for use in the reactor and thus would not be dependent on Russia exclusively for fuel. Ozdemir, however, said that as an engineer, he didn't understand the meaning of "fuel fabrication" and thought this sounded like a political statement rather than a technical one. The reactor will be 3rd generation and will use fuel "tablets" that can be bought from suppliers other than Russia.

¶6. (C) Ozdemir said Russia has been lobby hard for the deal. Minister Guler has traveled to Russia three times in a week, he said. At one meeting, Guler was hosted for dinner by Russian PM Putin and the head of AtomStroyExport. Additionally, a U.S. businessman who was discussing this with Energy Ministry contacts told us the Russian Ambassador in Ankara is practically sleeping at the Energy Ministry.

¶7. (C) Comment: It's difficult to predict how this might turn out, but our best guess is that the GOT will negotiate an acceptable price with the Russians. They have many reasons for going forward rather than starting again. Canceling the tender would be a huge embarrassment for the Energy Minister, who personally pushed hard for it to go forward on strict timelines despite calls by many investors for additional time and reducing some of the risks. With the local elections planned for March, a successful renegotiation of price with Russia is likely to be seen as a more politically attractive route. Also, the Russians are pressing hard for the tender, and may be linking this bid to renewal of gas contracts. The GOT is unlikely to pick a fight with the Russians without very good cause.

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Jeffrey